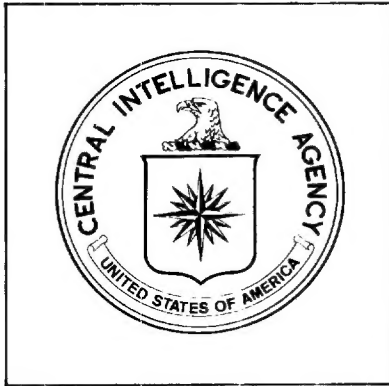


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CHINESE AFFAIRS

This publication is prepared for regional specialists in the Washington community by the East Asia - Pacific Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence and from the Directorate of Science and Technology. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Foreign Trade in 1974

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China's foreign trade boom fell victim in 1974 to the growing problems of the world economy. Total trade increased only 27 percent, to roughly \$12.5 billion, well below the 67-percent increase in 1973. Most of the increase is attributable to higher prices, with little or no growth in volume. Worldwide inflation pushed up China's import bill while the economic slowdown in the West cut demand for Chinese exports, resulting in the largest trade deficit in China's history--perhaps \$1 billion with the non-Communist world, and despite a surplus with the Communist world, about \$750 million overall.

Despite these difficulties, China's balance of payments is not in crisis. Reserves are well in excess of the trade deficit, the level of foreign debt is manageable, and Peking's credit rating is excellent.

China began taking steps to relieve the financial squeeze last fall. Contracts for agricultural products were deferred or cancelled. Fertilizer deliveries were postponed. Peking also increased its use of short- and medium-term credits and sold a portion of its gold holdings.

Trade with the non-Communist countries posted the largest gains, accounting for almost 85 percent of China's total trade. Imports from the developed West shot up to about \$5 billion from \$3.4 billion in 1973, largely due to increased purchases of agricultural products and machinery. China's deficit with the developed countries was roughly \$2.5 billion.

Sino-Japanese trade jumped 50 percent, to over \$3 billion. China's imports, boosted by sizable deliveries of machinery and equipment, exceeded exports by

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more than \$500 million. China's exports of 4 million tons of crude oil worth about \$380 million more than offset the decline in its traditional exports to Japan.

US-China trade totaled \$922 million, a smaller increase than anticipated at mid-year because China cancelled contracts for US grain worth about \$300 million. Wheat, corn, cotton, soybeans, and other agricultural products composed about 80 percent of total US exports of \$807 million. US machinery and equipment exports rose as delivery began on equipment for the ammonia plants purchased in 1973 and the second half of the \$150 million Boeing contract was completed. Growing purchases of cotton textiles helped boost US imports of Chinese goods to \$115 million, up from \$64 million in 1973.

US-China trade encountered several problems last year. Chinese complaints over the quality of US grain caused delays in wheat shipments and the cancellation of soybean contracts. US controls on scrap steel exports prevented delivery on several contracts. On the import side, shipments of Chinese shrimp were rejected by the Food and Drug Administration, and the Chinese at the fall Canton Fair were more vocal about the lack of most-favored-nation status for their exports.

Purchases of agricultural products, machinery, and transport equipment were largely responsible for the growth of China's total imports. China contracted for almost 10 million tons of grain in 1974, but shipping delays and contract cancellations dropped actual deliveries to just over 7 million tons, down from 7.7 million in 1973. Higher grain prices, however, pushed the cost up to over \$1 billion. Imports of soybeans and cotton were up substantially from 1973. Machinery and equipment imports rose sharply as large-scale deliveries began on the \$2.5 billion worth of whole plants and other equipment ordered in 1973.

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Peking signed contracts for \$900 million worth of whole plants in 1974--down from the record \$1.2 billion level in 1973. Rapid inflation and tight world credit markets, plus China's need for a breathing spell to absorb the large amount of technology already purchased, were the major reasons for the slowdown in purchases. Contracts worth \$550 million for the Wu-han steel rolling complex composed much of the purchases, with the balance going for additional synthetic fiber, fertilizer, and electric-power plants. Negotiations continue for a number of large plants, and new inquiries are being made for additional facilities. In contrast to the whole-plant program, major purchases of machinery and equipment in 1974 were off sharply from the record level of 1973.

China's exports rose by roughly \$1 billion in 1974; petroleum accounted for almost half of the increase. Sales of crude oil and petroleum products to Japan, the Philippines, Hong Kong, and Thailand amounted to about 4.5 million tons worth \$440 million. Rice exports benefited from high prices, but other traditional Chinese exports, particularly silk and cotton textiles, faced declining demand. Late in the year, even petroleum exports met with problems when Japanese buyers, pleading full storage tanks, refused to take delivery of 900,000 tons of crude oil under a 1974 contract.

The outlook for China's trade in 1975 is for slower growth as Peking attempts to reduce its trade deficit. Export growth will be small, reflecting poor sales of traditional products at the 1974 Canton fairs and recession-weakened demand in the West. An expected doubling of petroleum exports may do little more than offset the decline in other exports.

Imports of machinery and equipment will be substantial as large-scale deliveries continue on 1973 and 1974 contracts. The successful 1974 harvest and

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declining textile exports will permit cutbacks in grain and cotton imports. Other, less essential imports will be curtailed and the pace of new plant contracts may slow further.

Sino-US trade in 1975 will be down, perhaps to less than \$500 million. Recent cancellations of contracts for US wheat and possibly cotton will severely curtail US agricultural exports unless large purchases are made later this year. (CONFIDENTIAL)

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Cracking Down in Kwangtung

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Kwangtung leaders have finally cracked down on protesting workers and youths, ending the periodic disturbances that have plagued Canton since last fall. Demobilized soldiers employed as factory workers have been protesting discrimination in wage and bonus policies. Youth have been lashing out at the down-to-the-countryside program and the limited job and educational opportunities afforded them. (See *Chinese Affairs*, December 9, 1974.)

After a clash in late November between protesting workers and Canton garrison troops, Kwangtung party boss Chao Tzu-yang banned all further demonstrations and stationed militia units in each street to maintain order. The militia enforced new restrictions on poster criticisms, updated street registers to nab youths dodging the down-to-the-countryside program, and conducted criticism sessions for the most vocal dissidents. A program of study sessions for the city's workers was instituted, and on January 15 the demobilized soldiers issued a statement pledging to comply with party policy and end all wage protests.

Until the November incident, Kwangtung authorities had been steering a middle course, attempting only to reason with the unhappy workers and keep their demonstrations orderly.

One reason Kwangtung did not adopt a "get tough" attitude earlier was because there was no consistent signal from Peking on how to deal with the problem. Despite the general emphasis in the national media since July on law and order, some articles seemed to sanction resistance to local authorities. Some moderates in Canton apparently also believed that the protesters had the support of Chiang Ching and other radicals in Peking.

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Peking finally clarified its position last week in a *People's Daily* editorial and a series of articles in *Red Flag*, the party's theoretical journal. The articles struck out at workers, among others, who are corrupted by capitalist ideas and are in danger of succumbing to a "bourgeois lifestyle." The articles made it clear that future disturbances or work slowdowns would not be tolerated.

Now other provincial leaders are likely to move to clamp down on their dissidents. Worker and youth problems have been widespread, and many areas have experienced an increase in crime. Ningsia and Yunnan have also had problems with their Muslim minorities.

Many middle-level cadre may find the *People's Daily* editorial and the *Red Flag* articles unnerving, since much of the tough language condemning bureaucratic behavior could easily be directed against them. Cadre morale problems have been aggravated by the anti-Confucius campaign.

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According to [REDACTED] Kwangtung leaders were disturbed to find in the course of their investigation into the protests that many party cadre and "progressive workers and youths"--not just the usual rowdies and malcontents--were deeply involved. A plot by 20 factory cadres to escape to Hong Kong with the assistance of some militia members was discovered, according to [REDACTED]. A Public Security cadre reportedly was among those who put up posters under a pseudonym attacking everything from special privileges to the sanctity of Mao's thought.

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Although apparently successful in curbing expressions of worker and youth discontent, leaders at all levels have been slow in coming to grips with its causes. [REDACTED] however, indicates

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that an effort may be under way now. In at least one factory, promotion and job opportunities for junior workers have been improved, and workers even expect a wage increase for apprentices and lower grade employees "in the near future." (SECRET NO FOREIGN DISSEM)

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Old Wine in a New Bottle
[REDACTED]

25X1A

Vice Foreign Minister Han Nien-lung apparently has replaced, at least temporarily, Vice Foreign Minister Yu Chan as chief Chinese negotiator in the Sino-Soviet border talks. Han greeted Soviet negotiator Ilichev on his arrival at Peking airport on February 12, and a Tass dispatch termed Han the new head of the Chinese delegation.

Peking has not announced Yu Chan's whereabouts, but a Yugoslav press service ascribed Yu's six-week absence from public view to illness. Yu has been in charge of Soviet and East European affairs in the Foreign Ministry for some time, and the Yugoslavs could well be informed of his situation.

Han, who is the senior vice foreign minister, led the delegation for a brief period beginning in late 1971 when Chiao Kuan-hua, who was then chief negotiator and is now foreign minister, left to lead the newly admitted Chinese delegation to the UN General Assembly. Yu Chan took over in the spring of 1972 following his promotion from department head to vice minister in the Foreign Ministry.

In the past, Peking has consistently rejected Soviet proposals to hold the talks at the expert or working level, insisting that the permanent heads at the vice minister level be present. Thus, Han--who has long been associated with Asian affairs and has had very little to do with the USSR--may again be filling in temporarily, as he did in 1971-1972, until Yu Chan returns or another official of suitable experience and rank is available.

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Han's tenure as chief Chinese negotiator, however long it lasts, almost certainly has no bearing on Peking's negotiating position. The Chinese have made it clear publicly and privately that they are in no mood to strike a deal with Moscow. Indeed, Peking may even have signalled that its attitude toward a settlement has hardened. After years of public silence, China has recently presented its terms for a border agreement on three occasions--the last in Chou En-lai's NPC speech--conditions that the Chinese first tabled in late 1969 and that the Soviets have subsequently rejected several times.
(CONFIDENTIAL)

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Attacks on the Military Toned Down

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Peking's annual "support the army" circular, which routinely calls on the citizenry to support the military and enjoins the armed forces to cherish the government and the people, has often been a yardstick to measure the army's political standing. In Lin Piao's heyday, the army was praised as a "pillar of the proletarian dictatorship," but such praise has not been used in the circular for the past two years. This year's edition gives some strong hints as to the course that party-army relations will follow in the short term, but, like many official pronouncements in China, the message is expressed more by what is left out than by what is said.

Because the circular is such a bland and non-committal document, it suggests that civilian moderates in Peking prefer to avoid an open confrontation with the military, at least for the moment. This does not mean that efforts to reduce the political power of the People's Liberation Army will be phased out, but only that civilian authorities apparently believe direct and less visible tactics may prove more successful over the long run.

Each province, military region, and military district usually issues its own circular. The first circular issued by a military region contained an outspoken call for army obedience to party authority, and appeared to be a continuation of Peking's relatively hard line attacks on military political power. This document, broadcast in the Tsinan Military Region on December 16, said that military headquarters and units must "regard themselves as departments of military affairs of local party committees at the same level" and consciously accept the leadership of these committees. Moreover, the

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Tsinan circular stated that field armies must accept the leadership of the provincial party committees, a new theme obviously aimed at strengthening party authority over a rather hard-to-reach group--troops in the field.

Since the Tsinan statement turned out to be the most far-reaching issued by any military region, it may have been a trial balloon. The circulars issued by other military regions varied significantly. Some supported Tsinan by ordering units under their command to "obey" party authorities, but others said only that it was necessary to "respect" local party committees. A few regions did not comment at all on this subtle but sensitive difference.

When Peking issued its circular, it also ducked the issue. Moreover, the circular was broadcast on January 31, almost a month later than in the past three years, when Peking's issuance usually set the tone for the provincial circulars which followed. Resistance to the extreme position taken by Tsinan was almost certainly the major reason why Peking did not follow up on the issue, and appears to explain why Peking's circular was so late.

Provincial radiobroadcasts seem to reflect the obvious lack of accord. Some broadcasts extol military units that have sought guidance from party and government authorities, but the theme has not been heavily stressed.

There are other straws in the wind. On February 3, Shantung reported that Tsinan Military Region commander Tseng Ssu-yu "presided over" a rally to transmit the results of the National People's Congress and the party plenum that preceded it. The rally was co-sponsored by the provincial party committee and the party committee of the Tsinan Military Region. It is not unusual for lower ranking leaders to preside over rallies, and provincial party first secretary Pai Ju-ping, a civilian, was present and gave the major address.

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Since Tseng is not known to hold a provincial party post, his prominence may be explained by the fact that the rally was co-sponsored by the Tsinan Military Region party committee, on which he does hold a high post. Nonetheless, it is highly unusual for a military region commander to preside over a major political rally. Since Tsinan was the author of the most anti-military "support the army" circular, Tseng's prominent appearance is especially important. There are at least two plausible interpretations.

One explanation is that Peking is indicating support for Tseng because of his willingness to go along with efforts to reduce the political power of provincial military men. The other is that Peking is tacitly admitting that--for the moment at least--it has failed to force its will on provincial soldiers. Tseng's role at the Tsinan rally may indicate that an olive branch is being offered to the military, and that the relatively harsh tactics pursued by Peking prior to the National People's Congress are no longer in order.

In any event, in the short term Peking is apparently soft-pedaling direct attacks on the military. Articles attacking Lin's erroneous military line are becoming less frequent, for example.

The door has by no means been closed, however, to a resumption of confrontation tactics at a later date. Recent *Red Flag* and *People's Daily* articles calling for continuing efforts to strengthen the dictatorship of the proletariat emphasize that class enemies still exist "within the party" and that these enemies tend to collude with foreign revisionists. Persons such as Peking Military Region commander Chen Hsi-lien were attacked through historical analogy on precisely these grounds as recently as last fall.

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The potential danger of this line of attack has certainly not been lost on interested parties involved in the debate that preceded the National People's Congress. A Peking domestic broadcast on January 27 recounting the activities of an anti-chemical-warfare unit in Chekiang--a unit that has been closely associated with Chiang Ching in the campaign to criticize Lin and Confucius--noted that criticism of Lin's military line "is by no means aimed at investigating the individual's personal responsibility." This suggests that the political left sees dangers in unbridled attacks on military figures, some of whom probably have recently had a working relationship with the ideologues.

Peking will probably continue its carrot-and-stick approach to the military, using pressure and persuasion to ease soldiers out of party posts. For those who see the light, there may be rewards. Chang Chung, who became military district commander in Kansu during the Cultural Revolution, is still the top-ranking party secretary there. Chang was recently ranked ahead of three newly identified secretaries, at least two of whom are civilians.

Chang's military title has not been mentioned publicly since October 1973, however, and he may have taken off his uniform in order to hold onto his party job. It is possible that a number of provincial leaders with military backgrounds will follow this same course. Some military men may be persuaded to go the other way. Wuhan Military Region commander Yang Tschih, for example, appears to have dropped out of the running for a top party post in Hupeh. Yang had headed some turnouts in which party and military leaders were lumped together, but in late January he was listed with his military title and apart from provincial party leaders. (CONFIDENTIAL)

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Wrangling with Moscow over Tokyo
[REDACTED]

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Chinese Ambassador Chen Chu's return to Tokyo on February 5, after a week of consultations in Peking, touched off a spate of pessimistic rumors in Tokyo about prospects for the proposed Sino-Japanese peace and friendship treaty. Although the Chinese have yet to spell out positions on specific issues that are likely to come up in the treaty negotiations, the Japanese press has speculated that Chen brought back a hard line from Peking.

Much of the rumormongering in Tokyo apparently stems from a concerted Soviet effort to slow the quickening pace of closer Sino-Japanese ties. Last week, Soviet Ambassador Troyanovsky delivered a letter from Party chief Brezhnev to Prime Minister Miki proposing that talks on a Soviet-Japanese friendship treaty begin soon. Troyanovsky earlier made highly publicized representations to Liberal Democratic Party (LDP) and government leaders in Tokyo, suggesting that agreement on the treaty with Peking would have an undesirable influence on Tokyo's relations with Moscow. According to [REDACTED] the Soviets also provided pro-Taiwan elements in the LDP with arguments against the proposed peace treaty and leaked distorted accounts of Foreign Minister Miyazawa's recent meeting with Gromyko in Moscow.

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The Chinese response to Soviet "meddling" has been sharp, reflecting the urgency Peking attaches to reinforcing Sino-Japanese relations with the peace treaty. Both NCNA and the PRC-owned *Ta Kung Pao* in Hong Kong ran lengthy attacks on the Soviets for their "interferences" in Japan's internal affairs. The NCNA account argued that Moscow's concern over the Sino-Japanese treaty was a smokescreen to cover the Soviets' "illegal occupation" of Japan's northern

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territories. Other Chinese press reports have recounted alleged Soviet mistreatment of Japanese fishermen in that area. NCNA has also continued to broadcast accounts claiming widespread popular support in Japan for the treaty with China.

Both the Japanese and Chinese appear to be approaching the treaty negotiations with confidence that it can be concluded quickly. Both sides have agreed not to bring up the potentially contentious territorial questions of Taiwan and the Senkaku Islands until after the peace pact is signed. No other important unresolved bilateral issues appear likely to slow agreement on the treaty. Potential problems raised by the Japanese press--such as the earlier peace agreement reached between the Japanese and the Chinese Nationalists, or the existence of implicit anti-Japanese language in the 1950 Sino-Soviet friendship treaty--are molehills that are not likely to become mountains. Explanations for Peking's sharp reaction to Soviet attempts to exacerbate relations between Tokyo and Peking, therefore, must be sought elsewhere.

There are signs that at least some Chinese leaders believe the new Miki administration will not hold firm over the long term to the general foreign policy lines laid down by former prime minister Tanaka, especially regarding Japan's good relations with China and the US. Liao Cheng-chih, chairman of Peking's Sino-Japanese Friendship Association, told a visiting Japanese in late December that the "pro-Soviet tendencies" of some important members of the new administration in Tokyo made it impossible for China to be as trustful of Miki as it had been of Tanaka. Liao said that the LDP was riddled with pro-Soviet elements on the one hand and with Taiwan "lobbyists" on the other. Liao also expressed concern that relations between Japan and the US would decline under Miki

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and that Japan would make irrevocable concessions, especially on the northern territories issue, in order to improve relations with the Soviets.

If these fears of long-range Japanese foreign policy instability are genuine--and they probably are--it would be to Peking's advantage to obtain Miki's commitment to continue the momentum of improving relations with the PRC as quickly as possible. Institutionalizing close Sino-Japanese relations through a peace and friendship treaty would be a major step in that direction.

Successful conclusion of the treaty would also cast into sharp relief Peking's rapid progress in developing closer ties with Tokyo over the past two years, while pointing up Moscow's relative lack of movement since it opened relations with Tokyo in 1956. The Soviets' recent clumsy attempts to create irritants in Sino-Japanese relations presented Peking with an ideal opportunity to make this point. Virtually all of the Chinese press attention to the Soviet campaign has focused on issues unrelated to the treaty negotiations--such as Soviet "hegemonism" in the Pacific and Soviet "bullying" of the Japanese. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)

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Babies Are Peking's Business

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Since the beginning of February, several provinces have referred to "recent" instructions from Peking regarding birth control. Late last year, provincial broadcasts mentioned a national conference on planned parenthood. The latest instructions from the center on this issue undoubtedly grew out of last year's conference.

In November, [REDACTED] that Directive 27 from the Central Committee listed a partial agenda for the National People's Congress. Included on the agenda was a reaffirmation of the stringent birth control policies that have been in effect for the past two years. These measures include the promotion of late marriage by denying permission to marry if the couple has not reached the stipulated age, reportedly over 27 for men and over 25 for women. An even harsher measure to control population growth is to deny food-ration coupons for a fourth child.

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[REDACTED] indicate that medical teams have been sent to rural areas, where birth control measures have met with limited success, to perform compulsory sterilization on couples with three children. These forceful measures apparently are less necessary in urban areas because the more sophisticated city dwellers have been more cooperative in following birth control policies.

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Objections to stringent birth control measures surfaced in broadcasts from Kiangsu Province during the summer of 1973, but while these measures probably remain unpopular in the rural areas, no further complaints have appeared in provincial propaganda. When the public objections were first raised, it was thought

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that then Kiangsu party boss Hsu Shih-yu, a military man and member of the Politburo, was behind them. In any event, the complaints have evidently had no impact on Peking's determination to slow the growth of China's enormous population.

Another vehicle used by the government to emphasize the importance of birth control was the creation in September 1973 of a special birth planning group under the State Council. Until that time, birth control came under the auspices of the Ministry of Health. The birth planning group has not been mentioned publicly since 1974, however, and none of the other groups under the State Council have been referred to in Chinese propaganda since the National People's Congress.

With the emphasis on sound economic planning in Chou En-lai's speech at the National People's Congress, Peking obviously is anxious to prevent the growing population from eating up future economic gains. Logically, one way to drive home the importance of birth control to the reluctant rural population would be to maintain the birth planning group as a separate entity, with its previous special status. Regardless of whether Peking does in fact resort to this system, it is clear that firm, often mandatory birth control measures are here to stay. (SECRET NO FOREIGN DISSEM)

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The French Connection

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France and China apparently have agreed in principle on a visit to Paris this spring by Vice Premier Teng Hsiao-ping. No official announcement has been made, but French diplomats and correspondents have been freely spreading news of the trip for some time, and Peking has not discouraged this activity.

Teng would be the most senior Chinese official to visit France; the foreign and foreign trade ministers have made official visits to Paris, but Peking has not reciprocated President Pompidou's trip to China 18 months ago.

This would be Teng's first state visit since his rehabilitation almost two years ago, and thus a feather in France's cap that does not seem entirely warranted by the state of Sino-French relations or by the importance of Paris to Chinese policy. The joint communique following Pompidou's trip reflected sharp differences over French detente with the USSR and over Chinese views on European political, economic, and military cohesion. For some time, Peking has been dismayed over displays of French independence in Atlantic alliance affairs, which the Chinese believe give Moscow comfort. Teng, who was in Paris last April en route to Peking from a special UN session, passed up an opportunity to attend Pompidou's funeral, leaving China under-represented.

More recently, the French have indicated displeasure at Chinese slights. According to [REDACTED] retired French Ambassador Manach left Peking last week disappointed, baffled, and disillusioned that relations have not improved measurably since mid-1973. In Manach's view, no

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improvement appears imminent. According to [REDACTED] the Chinese appear less and less interested in France, believing that Mediterranean countries have no capacity to play an important role in international politics.

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Judging from the Chinese press in recent months, however, Peking has found the policies of President Giscard increasingly compatible with Chinese interests. NCNA has provided favorable coverage of the redeployment of French naval forces to Mediterranean ports, France's pro-Arab policies, Giscard's proposals for a petroleum producer-consumer conference, and Giscard's summit meetings with other Western leaders, which produced declarations supporting European solidarity. The Chinese press also heavily stressed Giscard's public statements on Brezhnev's recent visit, ascribing anti-Soviet motives to French defense policy.

Nevertheless, all signs point toward a relatively uneventful visit for Teng. He will almost certainly press Peking's well-known views on European security. Teng may also explore further Chinese purchases of French military hardware. Peking has recently received a consignment of French helicopters, and there have been hints in the past that a deal involving other French aircraft has been discussed. Economic ties are unlikely to be high on Teng's agenda. Although France has been an important Chinese trade partner, Manach reportedly complained that Peking now looks to West Germany as the key European country for China's trade.

Teng's visit probably should be viewed as symbolic of China's continuing emphasis on Europe. For both domestic and foreign policy reasons, Peking increasingly portrays Europe as the focus of Soviet policy as well as of the US-USSR contest for world influence. While Teng might have scheduled countries of more importance to China's European policies--the UK and West Germany,

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for example--protocol mandates that a Chinese of Teng's stature visit only Paris. He could still, however, make other stops that are as yet unannounced. Bonn, Rome, and Brussels are unlikely stops since West German Chancellor Schmidt is due in China sometime this year, and visits by the prime ministers from Italy and Belgium are scheduled for the next several weeks. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Stalling on Relations with Lisbon

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Peking is keeping a close eye on the political complexion and foreign policies of the government in Lisbon as the Chinese edge gingerly toward diplomatic recognition.

The provisional Portuguese government has satisfied demands made by Peking [REDACTED]

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[REDACTED] that Lisbon divest itself of overseas possessions particularly in Africa. With virtually all former Portuguese colonies now independent or headed toward independence, the Foreign Ministry in Lisbon made a strong bid for early Chinese recognition. In a formal statement on January 6, Lisbon recognized Peking as the sole and legitimate representative of the Chinese people; acknowledged that Taiwan was an integral part of China; and proposed that the two governments agree on a time for negotiations on the status of Macao. Three weeks later, Lisbon officially asked the Nationalist Chinese charge to close his mission and leave Lisbon by late March.

The Chinese response to Portugal's initiatives was cold, somewhat evasive and disappointing to Lisbon. Peking answered at the level of "Foreign Ministry spokesman"--one notch below Lisbon's January 6 note. The Chinese statement received limited publicity and apparently was not broadcast by NCNA. The Chinese note said that Peking had taken note of Lisbon's pronouncement, which "merits a favorable reception," but that "a difference" remains between Peking and Lisbon on the Macao question. No further movement toward normal relations has emerged since Peking's statement.

The Chinese reaction clearly was a dodge. Peking is in no hurry to regain control of Macao, which it considers Chinese territory "temporarily" occupied by

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Portugal, because of the implications such a move would have for its more important interests in Hong Kong and Taiwan. Peking has always insisted that it, not Lisbon, would determine when and how Macao will return to the Chinese fold. Lisbon, moreover, has satisfied Peking's earlier, long-standing terms for a strong Chinese voice in the administration of Macao. The Chinese press has also fully reported Portugal's divestiture of its African colonies and their moves toward full statehood.

Peking appears to be biding its time on recognition until the Chinese obtain a clearer reading of the policies of the new government in Lisbon. While reporting Portugal's decolonization fully, NCNA has been reticent in reporting internal political developments in Portugal, and the Chinese press has refrained completely from editorial comment. According to [REDACTED]

[REDACTED] that it was too early to predict the establishment of Sino-Portuguese ties. Ho said that, in his view, Peking would not recognize Lisbon if a Communist-dominated government came to power because of the Portuguese Communist Party's close ties to Moscow.

Peking's decision to recognize, thus, may be some distance off. Portuguese elections are scheduled in mid-April for a constituent assembly whose sole function will be to draft a new constitution. The Communists are unlikely to win a majority.

Even if the Communists do poorly in this or subsequent elections, Peking's attitude toward relations is likely to hinge on the new government's policy regarding the Western alliance, particularly continued NATO and US use of defense facilities on Portuguese soil, and the character of Lisbon's ties with Moscow. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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China Expands Civil Aviation

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A runway now under construction at Peking airport is the latest development in a program aimed at modernizing civil aviation. Peking recently has put much emphasis on the expansion of its civil air system, both to improve air transport of cargo and passengers and to help in its diplomatic offensive.

China now has more than 90 domestic routes connecting over 70 cities and 7 international routes. Three of these have opened since September. There are now seven international airports in China, four of them able to handle large passenger jets; a continuing construction plan will expand airport services throughout the country.

Peking airfield currently is the priority construction target. Besides new runways, plans include a new terminal building, a hotel for transport passengers, and new flight control facilities.

The mainstays of the domestic fleet are the 31 AN-24s and 45 IL-14s. The intercontinental routes are flown by 10 Boeing 707s, 5 IL-62s, and 5 British Tridents. More than 30 Tridents are on order, but the number earmarked for the civil air sector is unknown. Aircraft inventories like the ground facilities are continually being modernized and expanded. (SECRET NO FOREIGN DISSEM/WARNING: SENSITIVE SOURCES AND METHODS INVOLVED)

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ECONOMIC NOTES

Plans To Expand Shipping

25X1A

The Japanese role in Chinese shipping-expansion plans is increasing. Following the shipping agreement reached between the two countries in November, representatives from three major Japanese shipping companies visited China last month to discuss increased container and liner service.

Two of the three companies offered technical assistance to foster the development of containerization in the China trade. The Chinese already send some containerized exports to North America on Japanese ships, and they will eventually extend this service to Europe and Australia.

The third Japanese company disclosed that a new liner service, employing a Chinese combination passenger-cargo ship, will soon begin on a regular basis between China and Japan. (UNCLASSIFIED)

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Ship Registration

25X1A

China's ship registration may be affected by Somalia's decision to rescind its policy of registering ships under foreign control.

While most foreign shipowners register ships in Somalia to reduce crew and insurance costs, China uses the Somali flag to circumvent port restrictions in countries where Chinese-flag ships are prohibited. Many countries have relaxed port restrictions against Chinese ships, however, so Somalia's new policy will hasten a shift to Chinese registration.

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China's Hong Kong shipping companies currently operate a fleet totaling 1.5 million deadweight tons under the Somali flag. (CONFIDENTIAL)

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Integrated Circuits

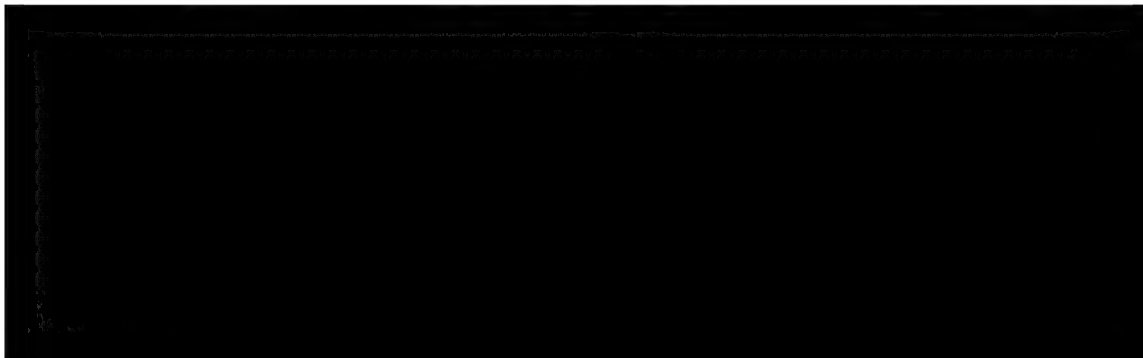
25X1A

China apparently is interested in purchasing large amounts of US equipment to establish a turn-key integrated circuit plant. Integrated circuits are the basic component used in the manufacture of modern electronic equipment.

The fact that the Chinese are seeking equipment from the US rather than from Japan--the main supplier to their semiconductor industry in the past--suggests that Peking is interested in the most advanced integrated circuit production manufacturing and technology available. Advanced types of circuits are crucial to the development of high-speed computers and sophisticated military electronic systems. (CONFIDENTIAL)

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